National Energy Board | Office national de l'énergie

Quarterly Financial Report
For the quarter ended 30 September 2012

Statement outlining results, risks and significant changes in operations, personnel and program

Introduction

The quarterly financial report for the National Energy Board (NEB or Board):

- should be read in conjunction with the Main Estimates;
- has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board; and
- has not been subject to an external audit or review.

The Board's top priorities are the protection of the environment, and the safety of the public and the people who build and operate NEB-regulated pipeline facilities. The Board has taken action to hold those we regulate accountable for results in the public interest with a rigorous compliance monitoring and enforcement program.

A summary description of the NEB's program activities can be found in *Part II of the Main Estimates*.

The NEB receives most of its funding through annual Parliamentary authorities. The majority of these expenditures are subsequently recovered from the companies regulated by the NEB and the funds are deposited in the Consolidated Revenue Fund of the Government of Canada.

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the National Energy Board's spending authorities granted by Parliament and those used by the department, consistent with the Main Estimates and Supplementary Estimates for the 2012-13 fiscal year. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes.

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The National Energy Board uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-2013, frozen allotments will be established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent Main Estimates tabled in Parliament.

Highlights of Fiscal Quarter and Fiscal Year to Date Results

Actual Expenditures

The significant variances in the second quarter and year-to-date expenditures between 2011-12 and 2012-13 are as follows:

- Personnel expenditures are up by $1.2M in the first two quarters of 2012-13 over the same period in the previous year. This increase is due to the timing of expenditures for such things as a) planned leaves and b) amended Terms and Conditions of Employment for certain classifications.

- Overall travel and communications spending is approximately $200K greater than 2011-12. This is due to a net increase in hearing and review related travel.

Planned Expenditures

Authorities increased by almost $9.3M in the second quarter of 2012-13 as identified below:

- 2011-12 Operating Budget Carryforward - $2.5M

- Budget 2012 initiative to strengthen pipeline safety - $5.9M

- Reimbursement of eligible paylist and severance payouts - $0.9M

The allocation of these additional authorities contributed to the following significant variances in 2012-13 planned spending compared to 2011-12.

- Planned personnel expenditures have increased by $1.6M over 2011-12. This represents the net effect of $4.3M for additional staff to strengthen pipeline safety and the allocation of the reimbursement received for eligible paylist and severance payouts ($0.9M), offset by a decrease of $3.1M related to the expiration of the collective agreement on 31 October 2011. It is expected that funding for the collective agreement will be received prior to 31 March 2013.

- The additional funding for pipeline safety received through Budget 2012 has contributed to an increase of $1.0 in planned spending for the acquisition of machinery and equipment over 2011-12.

- Transfer Payments represents the NEB's Participant Funding Program (PFP) which is used to provide financial assistance to support the engagement of Aboriginal groups, landowners, not-for-profit organizations and other eligible persons in the regulatory assessment processes for major facility projects. The increase of 217% or $3.0M in planned spending from 2011-12 to 2012-13 reflects a specific purpose one time increase in funding.

Risks and Uncertainties

The NEB operates within an evolving economic, environmental and social landscape. Dynamics such as high levels of sovereign debt in industrialized economies worldwide and an abundant energy supply in North America have impacted energy markets. Due to the nature of its mandate, the NEB's expenditures are influenced by planned and unplanned events (internal and external) that create uncertainty in expenditures and resource pressures.

The skills and experience needed by the NEB to fulfill its mandate are in high demand throughout the oil and gas industry. The NEB has experienced increasing attrition rates and non-productive staffing processes, highlighting a potential return to the very competitive recruitment environment for skilled staff within the energy sector. To mitigate this risk, the NEB has initiated a strong and strategic focus on recruitment and retention to ensure it has the right people, at the right time, for the right jobs.

The uncertain result of the ongoing negotiations related to the expiration of the current collective agreement on 31 October 2011 also creates a level of ambiguity related to staffing expenditures for the next few years.

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Significant Changes in Relation to Operations, Personnel and Programs

The approval of additional personnel to enhance priority processes for the National Energy Board will result in an increase to NEB authorities.

Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

The NEB is unaffected by the savings measure as announced in Budget 2012 however the department will receive $13.5 million over two years to strengthen pipeline safety. It is expected that inspections will increase from 100 to 150 per year and the number of annual comprehensive audits will double from 3 to 6.

Approval by Senior Officials

Approved by,

Gaétan Caron, Chair and CEO

Ed Jansen, Chief Financial Officer

(Calgary, Canada)
(29 November 2012)

STATEMENT OF AUTHORITIES (unaudited)

(in thousands of dollars)	Fiscal year 2012-2013			Fiscal year 2011-2012		
	Total available for use for the year ending March 31, 2013	Expended during the quarter ended September 30, 2012	Year to date used at quarter-end	Total available for use for the year ended March 31, 2012	Expended during the quarter ended September 30, 2011	Year to date used at quarter-end
Vote 25 – Net Operating expenditures	61,846	15,070	27,414	55,024	13,521	26,013
Budgetary statutory authorities	6,520	1,624	3,247	7,099	1,775	3,549
Total Budgetary authorities	**68,366**	**16,694**	**30,661**	**62,123**	**15,296**	**29,562**
Non-budgetary authorities						
Total authorities	**68,366**	**16,694**	**30,661**	**62,123**	**15,296**	**29,562**

More information is available in the attached table.

** Includes only Authorities available for use and granted by Parliament at quarter-end.*

DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (unaudited)

(in thousands of dollars)	Fiscal year 2012-2013			Fiscal year 2011-2012		
	Planned expenditures for the year ending March 31, 2013*	Expended during the quarter ended September 30, 2012	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2012	Expended during the quarter ended September 30, 2011	Year to date used at quarter-end
Expenditures:						
Personnel	48,524	13,728	25,599	46,903	12,500	24,531
Transportation and communications	3,898	998	1,612	3,711	791	1,415
Information	700	55	174	361	105	146
Professional and special services	6,897	1,396	2,276	7,403	1,406	2,524
Rentals	415	150	224	328	173	214
Repair and maintenance	1,041	133	295	826	54	352
Utilities, materials and supplies	699	89	146	790	104	173
Acquisition of land, buildings and works	-	-	-	49	-	-
Acquisition of machinery and equipment	1,397	50	126	331	78	103
Transfer payments	4,340	59	123	1,366	63	63
Public debt charges	-	-	-	-	-	-
Other subsidies and payments	455	36	86	55	22	41
Total net budgetary expenditures	**68,366**	**16,694**	**30,661**	**62,123**	**15,296**	**29,562**